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LUFKIN

Annual Report 1980

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Financial Highlights

(In thousands of dollars, except per share data)

Year ended December 31	**1980**	1979	1978	1977	1976
Net sales	**$273,936**	$206,386	$173,266	$147,916	$106,681
Net earnings	**40,682**	26,414	19,052	22,568	15,946
Net earnings per share	**23.37**	15.17	10.94	12.96	9.16
Total assets	**186,085**	142,457	124,384	112,459	89,503
Long-term debt	**4,000**	4,500	5,000	5,500	6,000
Cash dividends per share	**6.50**	5.50	5.25	5.00	2.20
Book value per share	**82.87**	65.99	56.32	50.63	42.66

COVERS:
FRONT: LUFKIN's unique Mark II Unitorque pumping unit is working here in central Texas near Giddings.
INSIDE FRONT: LUFKIN's conventional unit catches the sun as it works in the grassland of Wyoming.

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To Our Shareholders

Lufkin Industries, Inc. had the best results in its history in 1980. Earnings were up 54 per cent on a 33 per cent increase in sales over 1979, and new highs were established in sales, earnings and earnings per share.

Net earnings in 1980 were $40,682,000, equal to $23.37 a share, on sales of $273,936,000. This compares with 1979 net earnings of $26,414,000, equal to $15.17 per share, on sales of $206,386,000.

Dividends in 1980 were $6.50 per share, up from $5.50 a share in 1979. Stockholders' Equity exceeded $100 million, reaching $144,246,000 in 1980. Book value of Lufkin Industries stock as of December 31, 1980 was $82.87 per share.

This performance was achieved by herculean effort and dedication by all our employees. Due to the unprecedented demand for pumping units, we utilized every talent and sinew to produce and ship 7622 units. This could not have been achieved had not the facilities and manpower of the Trailer Division been utilized to produce 1431 structures for the 114D pumping units.

The return on shareholders' equity, an important measure of your company's performance, was 28 per cent in 1980, up from 23 per cent in 1979.

As in the past, the strongest sales and earnings contributions were made by the Machinery Division. This Division represented 88 per cent of 1980 sales, while the Trailer Division contributed nine per cent and the Industrial Supplies Division three per cent. We need to bear in mind that the Trailer Division's percentage of sales does not include the sales of pumping units for which they built the structures.

Shipments of pumping units averaged 146.6 units per week during 1980, compared with an average of 112 units per week in 1979, almost a 31 per cent increase.

Although the demand for pumping units exceeded our capability to supply, we still were able to build and ship industrial and marine gears. The shipments of gearing during 1980 averaged 14 per week which was the same averaged in 1979.

Trailer production was down in 1980 with 592 vans, 742 floats and 265 dumps produced. This compares with 1493 vans, 833 floats and 548 dumps built in 1979. This trend was nationwide with new trailer sales down more than 50 per cent throughout the industry in 1980. However, our trailer plant continued in full production by building pumping unit structures. This is continuing testimony to the importance of diversification.

Of the approximately 1600 trailers built during 1980, down 1300 from 1979, float sales were the strongest while dump trailers were weakest. In an effort to combat lagging sales, the Division introduced a new tandem fiberglass reinforced plywood trailer. After several weeks of testing by a national trucking line, reports were favorable and we're optimistic about future sales of this new model. Our trailer engineers are designing a lightweight aluminum dump trailer and a hopper-bottom grain trailer for introduction in 1981.

We expect the Trailer Division to continue in a dual manufacturing role of producing both trailers and pumping units during 1981.

Capital investments during 1980 totalled $19,894,000. The majority of these funds was spent in the Machinery Division. Expansion and modernization programs continued throughout 1980 in the machine shops, foundry, structural and final assembly and shipping plants.

The industrial gear expansion, which was begun in 1980, should

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be ready for occupancy during the first half of 1981, and will open a whole new avenue of expansion of this product line. We presently have on order hobbing machines, horizontal boring mills, lathes, grinders and every type of production equipment that will allow us to increase our output with higher quality. This new building will effect the two-factory concept which in turn will improve scheduling, productivity and deliveries of both gears and pumping units.

The no-bake molding system, shakeout and sand reclamation system put into operation in 1980 in our foundry operations have exceeded expectations. Our foundries, which include the main bay and counterweight foundries in Lufkin and the Little Rock, Arkansas foundry, increased the amount of iron poured in 1980 by 36 per cent. Weekly production averaged 150 gear boxes and 13 industrial gear housings.

Continuing foundry improvements over the next three years should double our melting capacity. Construction on a new cupola and charging system was begun in 1980 and will be completed in 1981.

Expansion programs for the structural plant during 1980 resulted in two new bays which added 20,000 square feet of manufacturing space. A fully-automated shot blast system and modern painting facilities were added also. A new overhead crane and production machines were installed in the final assembly and shipping department.

We purchased 14.5 acres with offices and warehouses on the west loop and our Industrial Supplies Division moved to this location during the fourth quarter of 1980. This was advantageous to the company in that it moved this Division away from the congested manufacturing areas and is more convenient for customers.



This move also freed much needed warehousing and offices for the Material Control department and will facilitate an orderly flow of material to our production shops. We have liquidated our automotive parts inventory and will concentrate our sales emphasis to industrial supplies.

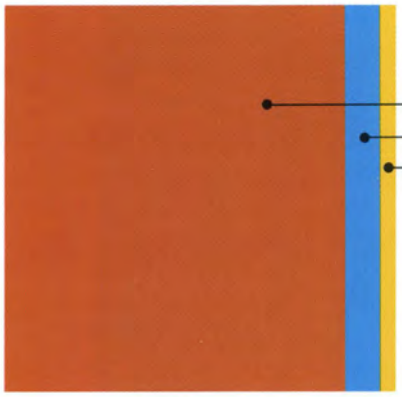
Plans and specifications were begun and a site purchased for a new corporate headquarters office building during 1980. Construction is expected to begin during the first quarter of 1981, and occupancy is hoped for in late 1981. This will effect the movement of industrial and manufacturing engineering quarters to the old main office building, thereby freeing more space for manufacturing areas.

Our people exceeded the goals that were set for 1980. New goals for 1981 are the most ambitious in our history but we are confident that with continued support, effort and dedication from us all, we will be successful.



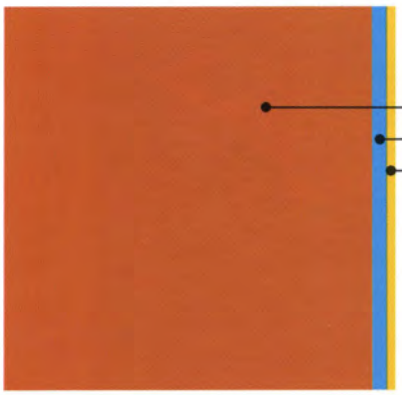
R. L. Poland
President and Chief Executive Officer

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Sales by Industry Segment

88% Machinery Division
9% Trailer Division
3% Industrial Supplies Division
100%



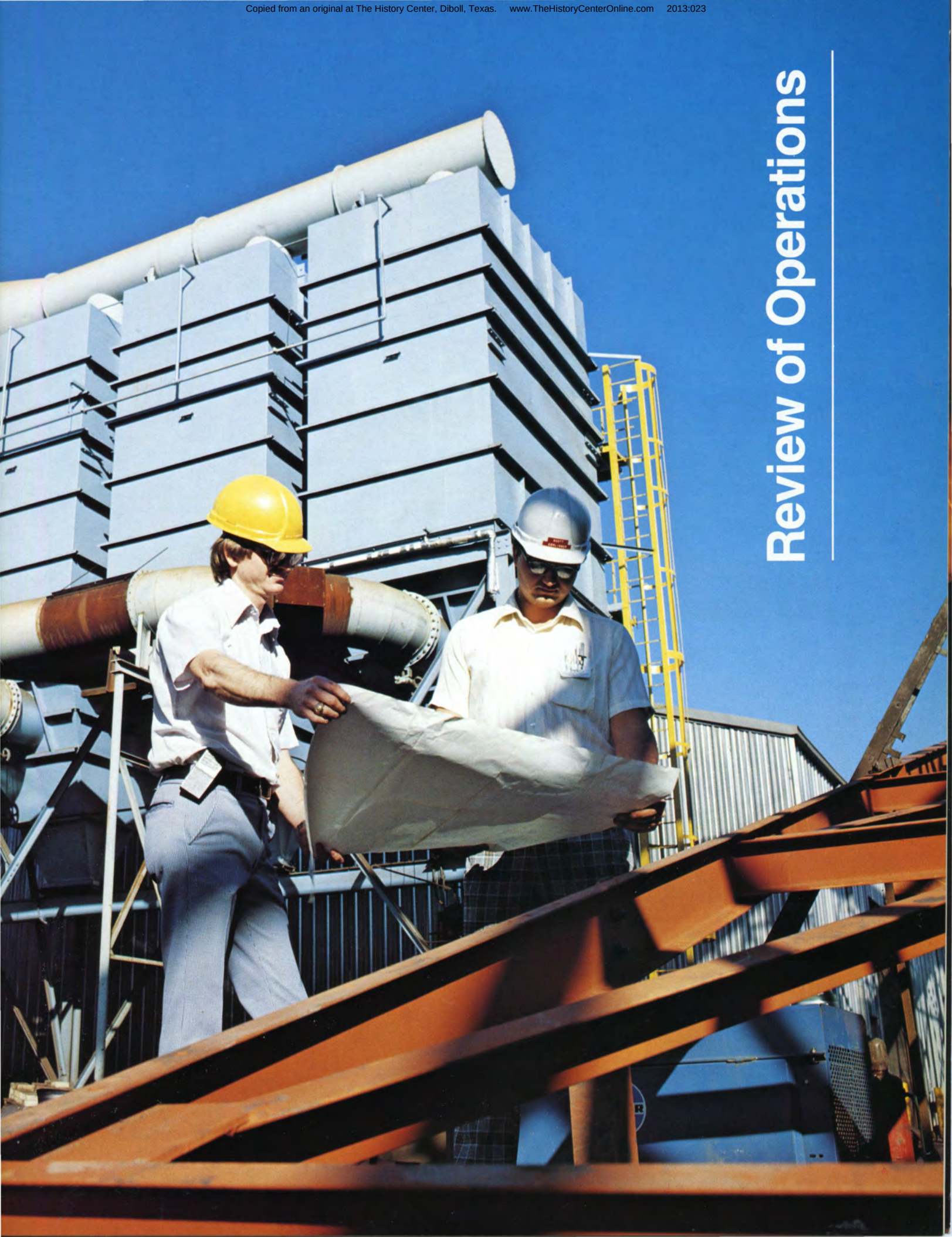
Operating Income by Industry Segment

97% Machinery Division
2% Trailer Division
1% Industrial Supplies Division
100%

Construction plans for 1981 include more expansion and renovation in foundry operations.

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Review of Operations



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Machinery Division

The Machinery Division of Lufkin Industries accounted for 88 per cent of the company's 1980 sales and 97 per cent of its operating income. Operating income for this Division was up 63 per cent over 1979 on a 47 per cent sales gain.

This Division is made up of the manufacturing facilities for the production of oilfield pumping units, industrial and marine propulsion gears. There are three major segments in the Machinery Division—the machine shops, the foundry operations and the structural, final assembly and shipping plants.

The demand for pumping units in 1980 was unparalleled in the company's history and just as phenomenal were the production records amassed in the various manufacturing departments of the Machinery Division.

On December 31, 1980, records revealed that 7622 units had been shipped during the preceding 12 months, a 31.5 per cent increase over the 5796 units shipped in 1979. Records also listed 775 industrial and marine gears shipped in 1980 which equaled the shipments in 1979.

Machine Shops

Employment in the machine shops increased 13 per cent during the year, bringing the total to approximately 1100 persons.

The majority of the company's capital expenditures in 1980 were designated for the machine shops. The largest expenditure was for the industrial gear expansion on the north end of the plant. When total utilization of the new building is effected in 1981, it will have a significant impact on the production of gears and pumping units.

Industrial gear assembly operations and precision machining operations will be housed in the new structure. In the next two to three years, the company will be moving toward a two-factory concept, separating its manufacturing processes for gears and pumping units.

At the present time, most of the industrial gear products are produced on special equipment located throughout the machine shops. The new building will afford the opportunity to group together the machines producing industrial gear products, thereby enhancing scheduling, productivity, quality assurance and deliveries.

In other areas of production, the occupancy during 1980 of the building which replaced the old foundry on the south end of the main bay machine shop was a significant milestone. This resulted in the gear blank machining processes concentrated in one area.

In addition to buildings and facilities, capital expenditures went for manufacturing tools. Since early in the history of LUFKIN, the purchasing of modern, high technology equipment



This Air-Balanced Unit is mounted on a trailer to facilitate moving it from well to well.



Capital investments include new high technology production tools such as this sophisticated lathe.

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Production of gear boxes for pumping units in 1980 reached an all-time record. This building houses many machines for producing gears.

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has continued. Purchased last year were additional hobbing machines, horizontal boring mills, lathes, grinders and other productive equipment which will allow the company to produce competitive, quality products.

Some of these machines have price tags ranging from a quarter million dollars to one million dollars each. These machines are manufactured in Germany, Switzerland and the United States.

There is a continuing program to introduce production changes throughout the plant. One of the more important changes are the installation and utilization of the Manufacturing and Production Control computer based system which will allow us to better control and coordinate our production throughout the plant.

Foundry Operations

Production of castings for our products increased during 1980 due primarily to the renovations in the foundry facilities in 1979. The no-bake molding system, the shakeout and sand reclamation system were welcomed improvements which not only increased production but also resulted in a much cleaner environment for employees. Noteworthy expenditures for pollution abatement included the purchases of safety hoods for employees in the castings cleaning department of the foundry.

These hoods filter about 95 per cent of the contaminants from the air while increasing head and eye protection. Employees report they are more comfortable than conventional safety equipment. Although the company has spent several millions of dollars the past few years on pollution abatement equipment, the expenditure of some $300 each for these safety hoods was deemed most significant by the workers who wear them.

Capital expenditures will continue in the foundry operations since this is where production is begun on most of the company's products.

Plans were initiated in 1979 and will continue during the next three years which will almost double the melting capacity of the Little Rock, Arkansas foundry and the two foundries at the Lufkin plant. During 1980, castings production in all three foundries increased 36 per cent. A third electric furnace is being added to the Little Rock foundry.

Construction has begun on the initial phase of a program which will result in a new cupola and charging system. This first phase was begun in 1980 and is the construction of a materials unloading, handling and storage system. Upon completion of this phase, erection should begin immediately on the cupola and charging system.

Structural, Final Assembly and Shipping

An expansion and modernization program for the structural, final assembly and shipping plants was completed in 1980. The $1.5 million project was begun in mid-1979 and completed during the third quarter of 1980. Construction of two new bays created some 20,000 square feet of new areas for manufacturing. One of the bays is the area where horseheads for pumping units are produced and production increased about 50 per cent.

The second bay houses a $380,000 shot blast system. The huge shot blast machine does in five minutes what used to take 45 minutes by hand blasting. The system uses eight shot wheels to blast any rust or mill off a part. The resulting finish allows the primer coat of paint to bond to the metal which in turn results in the outside coat of paint lasting for years.

This system not only shot blasts areas of a production part which heretofore could not be reached by hand blasting but also eliminates the safety hazards of manual blasting.

Other improvements to these shops include a second tape-controlled plasma arc welding machine, a dip tank and paint storage building, a new overhead crane, a wireline press machine and two milling machines. New offices were built to combine the structural shop offices with the final assembly and shipping offices to eliminate duplication of effort.

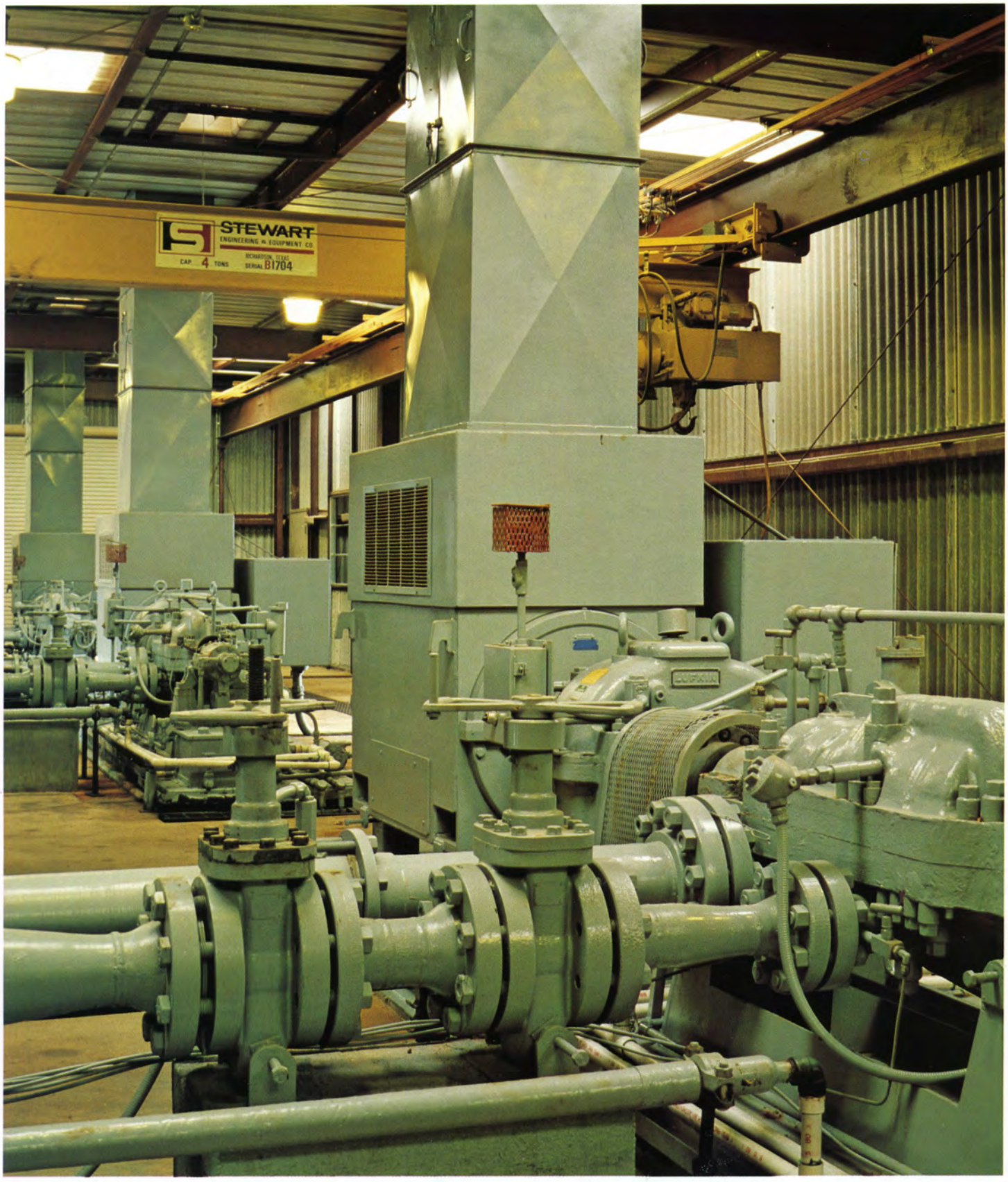






TOP: This is one of the new Sykes gear generators purchased in 1980 bringing LUFKIN's total Sykes to 50 with two more to be delivered in 1981.
CENTER: This industrial gear was installed in San Pablo, Mexico to drive an electric generator.
BOTTOM: Increased production of gear boxes in 1980 was due primarily to the no-bake molding system installed in late 1979.

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These LUFKIN gears are driving pumps for a waterflood project in Fittstown, Oklahoma.

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Machinery Division Sales

The sales department for the Machinery Division has territories throughout the United States and Canada, with some 100 employees. Service and parts departments are at most of these locations and the Latin American and western European markets are serviced by sales personnel in the International Division offices in Houston, Texas.

In 1980, Lufkin's first manufacturing plant outside the United States was put into production. This is in Nisku Industrial Park near Edmonton, Alberta, Canada. During its first year of operation, the plant produced 380 structures for a variety of sizes of conventional pumping units. Its goal for 1981 is to produce 700 units.

The name LUFKIN is not new to Canadian customers. The first Canadian sales and service office was opened in Edmonton in 1949 and a sales office was established in Calgary in 1965. The Edmonton sales office now is located at the Nisku plant.

The $2 million Nisku plant is located on a 10-acre site. A 22,000-square-foot building was completed in October, 1979, but production did not begin until January, 1980. The first unit was shipped in March, 1980.

A 7000-square-foot, three-bay addition was completed in December, 1980. The new expansion will house warehouse operations and a paint storage area. Because of extreme temperatures during Canada's winters, pumping units must remain inside for a minimum of four hours after painting before being placed outside in zero degree temperatures.

Future plans for this plant call for a repair facility for units in the field. There are some 47 persons employed in the Canadian facility including manufacturing and sales personnel.

Continuing improvements and expansion programs throughout the company's production facilities add to the sales department's responsibilities. The occupancy of the new building designated for industrial gear production will trigger a more aggressive sales approach to the company's gear business. These facilities will result in improved quality and significantly more competitive deliveries.

Employee Relations

The company's growth throughout its several departments has resulted in the creation of many new jobs. During the past 10 years some 1400 new people have been employed. In 1979, approximately 400 new jobs were created, and in 1980 an additional 400 new jobs were created. In 1979, company employees numbered 3249; at December 31, 1980, some 3668 persons were employed at an annual payroll of approximately $60 million.

The company provides many opportunities for employees to enhance their positions with promotions and wage increases. Several in-house training schools for job improvement are operated by the company, as well as a tuition-aid program which will reimburse employees for tuition, fees and books when they successfully complete college courses. To bridge the uncertainty of a new job, the company operates intensive orientation classes for new employees. The company underwrites an incentive attendance program which dramatically improved the attendance records of production employees during its first two years.

The Machinery Division management recognizes the leadership role of this Division in the company's success. Plans for improvement programs, new technology, modern manufacturing tools and the creative use of manpower are continuing objectives.

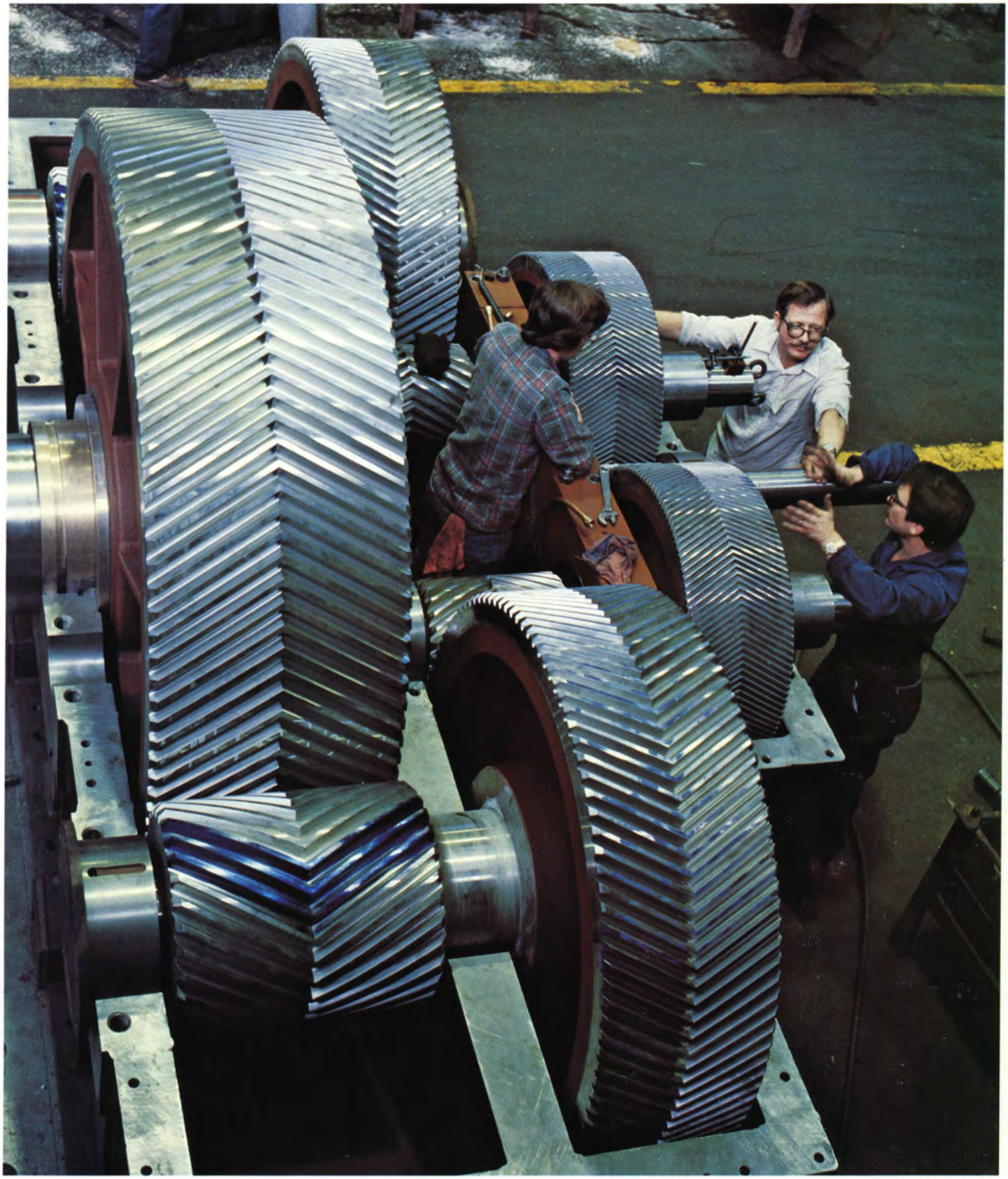


This is the first production machine installed in the new industrial gear building.



This shot blast machine carried a price tag of $380,000. It can clean a part in five minutes that required 45 minutes by manual blasting.

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When this industrial gear was completed, it was installed in a sugar mill. It was one of 775 industrial and marine gears produced in 1980.

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Trailer Division

The year 1980 could have been a year of crisis for the Trailer Division. Instead, the company's diversification policies averted a lay-off of employees or short work-weeks.

Trailer sales throughout the United States dropped 50 to 60 per cent in 1980 from the year before. When this company's trailer sales declined dramatically, production in the plant was diverted to pumping units. This had occurred in the past and it was known that the Trailer Division's manufacturing facilities and its employees were compatible to pumping unit production.

This Division made a significant contribution to the total pumping unit production of the company, building some 1430 structures and parts for the model 114D pumping unit. A goal of 2000 units for 1981 has been set by this Division's production people.

About 40 per cent of the Trailer Division's 457 employees were assigned to pumping unit production, fabricating structural parts, assembling and shipping. The gear boxes were furnished by the Machinery Division.

The remaining 60 percent of employees produced 1638 trailers. This was a decrease of 1300 trailers from 1979. Production of lowboy floats in 1980 was greater than the number of lowboys built during the previous 10 years. Half of the 1980 production of trailers was in floats and lowboys.

The strongest sales were registered in float trailers while the weakest sales were in dump trailers. Dump trailers primarily are purchased by independent operators and small companies who were hardest hit by high interest rates and high fuel costs.

Trailer Division design engineers introduced a new fiberglass reinforced plywood trailer in 1980 which was well received by the industry. Plans call for the introduction of two new trailers in 1981. These will be a lightweight aluminum dump trailer and a hopper-bottom grain trailer.

The fiberglass reinforced plywood trailer, known in the trade as the FRP van, is manufactured from panels which are easily replaced if damaged. It is a strong trailer requiring considerably less maintenance than the conventional aluminum vans. Since the prototype was built and tested, orders for approximately 50 of these vans have been received and built. It is a profitable addition to our line of trailers.

During the first quarter of 1981, the new prototype aluminum dump trailer should be completed. Plans call for it to be displayed at a state motor transportation convention in the summer. It is hoped this new design will help regain some of the market which was lost by not having an aluminum dump in our line.

Many trailer sales and service branches were re-modeled and up-graded during 1979 and 1980. The newest branch will be opened in Houston in the first quarter of 1981. It is expected to continue and increase its profitability in the booming Houston area.



Production of flasks for the foundry department of the Machinery Division kept Trailer Division employees working as trailer sales declined.



Sales of oilfield floats were the strongest in 1980. Fifty per cent of the Trailer Division's production was in lowboys and floats.

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Lowboy float production in 1980 was more than the total for the past 10 years.

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Industrial Supplies Division

The Industrial Supplies has a new name and a new location. During the fourth quarter of 1980, the Industrial Supplies Division moved from its location in the congested manufacturing areas to a 14.5-acre site at the intersection of the south loop and State Highway 94 west. The site and office-warehouse facilities were purchased and the move was made during the fourth quarter of 1980.

The Division has considerably more warehouse space as well as convenient and increased parking space for customers.

Since the decision was made to drop the less profitable automotive parts line, that portion of the Division's name was dropped also. After liquidating about 60 per cent of the automotive supplies inventory, the remaining 40 per cent was added to the industrial supplies. Sales emphasis is now to the industrial supplies wholesale customers.

The move was a monumental task. Two floors of supplies covering some 115,000 square feet were moved to the new location. This proved to be a slow and tedious task. The supplies had to be removed from the shelves at the old location, the shelves dismantled and moved to the new location for re-assembling. Then the supplies were replaced on the shelves.

Employees and equipment from the Machinery Division and Trailer Division assisted in the move to help shorten the time the Industrial Supplies Division was closed for the relocation.

In the new location, a plumbing supplies display room was constructed. This affords plumbing contractors and their customers an opportunity to see several styles of plumbing fixtures.

About one-third of the total volume of sales of the Industrial Supplies Division is for the Machinery Division and the Trailer Division. This volume of business assists the Division to increase its purchasing power so that it can remain price competitive with other firms.

This Division serves customers in a 125- to 150-mile radius from Lufkin, while most of its competitors cover several states and in some instances operate nationwide.

It is hoped home-building volume will increase in 1981 which in turn will increase the volume of business for Industrial Supplies. Indications are that business from utilities and industrial plants will remain steady and perhaps increase if the general economy improves.



Increased warehousing was one result of the move by Industrial Supplies to a new location west of the main manufacturing plant.

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Convenient yard storage as well as more parking space for customers and more efficient receiving and shipping facilities were effected by the move to the west loop.

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A new fiberglass reinforced plywood trailer was introduced during 1980 by the Trailer Division. It is manufactured from panels easily replaced if damaged.

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Description of Business

The Company was incorporated under the laws of Texas on March 4, 1902 and has since that date maintained its principal office and manufacturing facilities in Lufkin, Texas. The Company's operations are divided into three divisions, the Machinery Division, Trailer Division and Industrial Supplies Division, which correspond to the Company's principal industry segments.

Machinery Division

The Company's Machinery Division designs, manufactures, sells, and services various types of oilfield pumping units as well as industrial and marine gears. Lufkin manufactures four basic types of pumping units: an air balanced unit; a beam balanced unit; a crank balanced unit; and a Mark II Unitorque unit. The basic differences between the four types relate to the counterbalancing system. The depth of a well and the desired fluid production determine the type of counter-balancing configuration that is required. There are numerous sizes and combinations of Lufkin oilfield pumping units within the four basic types. The Company's gears (speed increasers and reducers) are designed, manufactured, and sold primarily for use in marine propulsion units and for use in conjunction with machinery in heavy industries such as the steel, rubber, paper and sugar industries. The Company produces numerous sizes and combinations of gears.

The Company manufactures most of the component parts used in its products and purchases the raw materials and outside manufactured parts from a variety of suppliers on an order basis. The inventory of the Machinery Division consists primarily of raw materials and component parts which are generally assembled into finished products to fill specific customer orders. These finished products are sold by the division's own employees directly to the domestic petroleum, manufacturing and shipbuilding industries. The Company has operated its Machinery Division manufacturing facilities at or above the maximum efficient operating capacity for the past five years.

Oilfield pumping units are the Company's primary products sold in export. These sales, other than to Canada, are made principally through foreign sales representatives, licensees and distributors. During 1980, foreign sales accounted for approximately 20 percent of the Company's total net sales. While foreign sales are generally more profitable, they are subject to the risk of fluctuations in foreign import duties and taxes.

The domestic and international markets for the products of the Company's Machinery Division are highly competitive with price, quality and the speed of delivery being important factors. While the Company believes that it is one of the larger manufacturers of sucker rod pumping units in the United States, manufacturers of other types of units (submersibles and hydraulics) have a significant share of the total pumping unit market. The Company does not believe it is a significant factor in the gear market.

Trailer Division

The Company designs, manufactures, sells and services a variety of van, flatbed, and dump trailers, ranging in length from 18 to 50 feet and having capacities up to 75,000 pounds in flatbeds, 60,000 pounds in vans, and 30 cubic yards in dump trailers. Manufacturing operations are keyed mainly to specific customer orders.

The Trailer Division is also involved in repairing and selling used trailers which the Company receives in connection with the sale of its new trailers. The Company has trailer sales and service facilities in Atlanta, Georgia; Shreveport, Louisiana; Oklahoma City, Oklahoma; Memphis, Tennessee; and Lufkin, Dallas, San Antonio, Houston and Lubbock, Texas. A trailer sales and parts facility is located in New Orleans, Louisiana.

The Company uses a sales force of approximately 30 employees to distribute its trailers, primarily in the south. The Company also markets trailers through dealers. The Company trailers are sold to a large number of customers, including trucking concerns operating nationally.

The truck trailer market is extremely competitive and the Company's products compete directly with those of other manufacturers, a number of which are larger and have greater resources than the Company. Price, quality, speed of delivery, and financing are primary competitive factors. The Company does not believe it is a significant factor in the market for truck trailers either in the south or nationally.

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Industrial Supplies Division

The Industrial Supplies Division is essentially a wholesale supplier of heavy hardware items, plumbing fixtures, pole line hardware, and miscellaneous industrial items.

The division's sales are made at the Company's facilities in Lufkin and through approximately six traveling salesmen. Sales are primarily in the East Texas area and the division is not a substantial factor in the markets in which it competes.

General Information

Properties. The Company's major manufacturing facilities are located in and near Lufkin and are owned in fee.

Machinery Division—The Machinery Division is located on approximately 100 acres and includes a foundry, machine shop, structural shops, assembly shops and warehouses. In addition, the Company has a foundry in Little Rock, Arkansas and a plant in Cushing, Texas, which produce structural parts for pumping units. The production from both the Little Rock and the Cushing facilities is sent to the Lufkin plant for further manufacture.

Trailer Division—The Company's trailer manufacturing facilities are located on a 60-acre portion of a 400-acre tract of land owned in fee by the Company and consist of one large building with a floor area of approximately eight acres. The plant operations are highly automated and consist principally of fabrication, welding and assembly activities.

Industrial Supplies Division—The Industrial Supplies Division has one warehouse which is located in Lufkin and contains approximately 120,000 square feet. A portion of this space is used for administrative operations.

Employees. The Company employs approximately 3,700 people, of whom approximately 2,900 are hourly paid. The Company has an open shop contract with three labor unions, all members of the AFL-CIO, which runs to September 30, 1982. The Company considers employee relations to be satisfactory.

Information on Voting Stock

There is no active market in the Company's common stock. As of February, 1981, the Company had approximately 900 record holders of its common stock.

Lufkin has paid cash dividends for 41 consecutive years. Total dividend payments were $11,315,000 in 1980 and $9,574,000 in 1979. Quarterly dividend payments per share for 1980 and 1979 are shown below:

	1980	1979
First quarter	**$1.40**	$1.25
Second quarter	**1.50**	1.25
Third quarter	**1.50**	1.25
Fourth quarter	**2.10**	1.75

Additional Financial Information

Stockholders may obtain additional financial information for the year ended December 31, 1980 from the Company's Form 10-K Report filed with the Securities and Exchange Commission. A copy of this report may be obtained by written request to The Secretary, Lufkin Industries, Inc., P.O. Box 849, Lufkin, Texas 75901.

This report is presented for the general information of the stockholders and not in connection with the sale or offer to sell or solicitation of any offer to buy any securities nor is it intended as a representation by the Company of the value of any of its securities.

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Business Segment Information

(In thousands of dollars)	1980	1979	1978
Net sales:			
Machinery Division			
Pumping units	**$215,089**	$143,732	$112,470
Gears	**26,732**	21,016	18,217
Trailer Division	**24,738**	34,110	36,105
Industrial Supplies Division	**7,377**	7,528	6,474
Total net sales	**273,936**	206,386	173,266
Operating income:			
Machinery Division	**66,331**	40,644	29,761
Trailer Division	**1,337**	3,361	2,548
Industrial Supplies Division	**522**	523	359
Total operating income	**68,190**	44,528	32,668
Assets:			
Machinery Division	**116,623**	88,346	69,187
Trailer Division	**18,597**	22,709	20,825
Industrial Supplies Division	**4,968**	4,586	3,715
General corporate assets	**45,897**	26,816	30,657
Total assets	**186,085**	142,457	124,384
Capital expenditures:			
Machinery Division	**16,628**	9,257	9,862
Trailer Division	**1,053**	488	920
Industrial Supplies Division	**1,063**	78	182
General corporate	**1,150**	—	—
Total capital expenditures	**19,894**	9,823	10,964
Depreciation:			
Machinery Division	**3,577**	2,908	2,484
Trailer Division	**586**	526	491
Industrial Supplies Division	**99**	89	64
General corporate	**169**	195	—
Total depreciation	**4,431**	3,718	3,039
Net sales by geographic region:			
United States	**220,065**	154,884	140,835
Canada	**17,148**	16,095	10,943
Latin America	**28,560**	22,843	14,410
Other regions	**8,163**	12,564	7,078
Total sales	**$273,936**	$206,386	$173,266

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Management's Analysis of Operating Results and Financial Condition

Operating Results

1980 was another record year with both net sales and net earnings exceeding 1979 levels. 1979's results had also exceeded 1978's.

Revenues—In the Machinery Division, sales increased 47% in 1980 (26% in 1979). Pumping units and related oilfield equipment sales increased 50% in 1980 and 28% in 1979 as a result of both increased volume and prices. In 1980, the number of pumping units shipped was 7,622 as compared to 5,796 in 1979. The demand for the Company's oilfield products continues to exceed its production capacity and the increased production reflected above resulted from enlarged and improved production facilities. Gear products showed an increase in revenue of 27% in 1980 and 15% in 1979, primarily resulting from increased prices.

Trailer Division sales decreased 27% in 1980 and 6% in 1979. This was a result of decreased demand for these trailer products due primarily to the condition of the economy. While the volume of trailer sales decreased, the Trailer Division did fabricate and assemble a large volume of oilfield pumping units for the Machinery Division.

In the Industrial Supplies Division, net sales decreased 2% in 1980 as compared to a 16% increase in 1979. Part of the decrease can be attributed to weaker economic conditions of the customers it served, but also the sale of wholesale automotive parts was eliminated during the year.

Operating income—The Company's operating income increased 53% in 1980 and 36% in 1979. This resulted primarily because of the increased volume of shipments along with increased gross margins in the Machinery Division. The Company was able during 1979 and 1980 to increase the prices on its oilfield products at a level to offset the increases in its variable costs. With the significant increase in sales volume, the fixed costs per unit were decreased, thus resulting in the improved operating income. The operating income of the Trailer Division and Industrial Supplies Division decreased due to the lower sales for the year.

While sales increased 33% overall, selling, general and administrative expenses increased only 9% in 1980. Other income (expense) increased from $2,231,000 in 1979 to $5,284,000 in 1980, a 137% increase. Most of this increase was from greater interest income on a larger holding of temporary investments and marketable securities with higher yields during 1980.

Liquidity and Capital Resources

At December 31, 1980, the Company had working capital of $76,088,000 as compared to $62,363,000 at December 31, 1979. In recent years, the expansion of the Company's facilities has been financed with internally generated funds and the Company plans to continue the expansion and improvement of its facilities in this manner.

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Consolidated Balance Sheet

December 31, 1980 and 1979

Assets	1980	1979
Current assets:		
Cash	**$ 488,000**	$ 2,944,000
Temporary investments	**23,650,000**	2,500,000
Accounts receivable, less allowances of $225,000	**43,671,000**	36,706,000
Installment notes and contracts receivable, less allowances of $75,000	**6,207,000**	7,075,000
Inventories:		
Finished goods	**4,389,000**	4,870,000
Work in process	**13,289,000**	11,825,000
Raw materials	**16,656,000**	14,736,000
	34,334,000	31,431,000
Total current assets	**108,350,000**	80,656,000
Property, plant and equipment:		
Land	**4,554,000**	3,003,000
Buildings	**23,697,000**	17,781,000
Machinery and equipment	**59,335,000**	48,255,000
	87,586,000	69,039,000
Less accumulated depreciation	**28,260,000**	25,176,000
	59,326,000	43,863,000
Investments in marketable securities	**18,045,000**	17,572,000
Other assets	**364,000**	366,000
	$186,085,000	$142,457,000

See notes to consolidated financial statements.

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Liabilities and Stockholders' Equity	1980	1979
Current liabilities:		
Current portion of long-term debt	**$ 500,000**	$ 500,000
Accounts payable	**8,374,000**	5,086,000
Accrued liabilities:		
Payrolls	**2,008,000**	719,000
Contributions to pension plans	**3,769,000**	3,260,000
Taxes	**17,562,000**	8,701,000
Other accrued liabilities	**49,000**	27,000
	23,388,000	12,707,000
Total current liabilities	**32,262,000**	18,293,000
Long-term debt, net of current portion	**3,500,000**	4,000,000
Deferred Federal income taxes	**6,077,000**	5,285,000
Stockholders' equity:		
Common stock, par $1 per share; 2,000,000 shares authorized; 1,740,730 shares outstanding	**1,741,000**	1,741,000
Capital in excess of par	**15,750,000**	15,750,000
Retained earnings	**126,755,000**	97,388,000
Total stockholders' equity	**144,246,000**	114,879,000
	$186,085,000	$142,457,000

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Consolidated Statements of Earnings & Retained Earnings

Years ended December 31, 1980, 1979 and 1978

	1980	1979	1978
Earnings			
Net sales	**$273,936,000**	$206,386,000	$173,266,000
Cost of sales	**190,815,000**	148,119,000	126,266,000
Gross income	**83,121,000**	58,267,000	47,000,000
Selling, general and administrative expenses	**14,931,000**	13,739,000	14,332,000
Operating income	**68,190,000**	44,528,000	32,668,000
Other income (expense):			
Interest income	**4,933,000**	2,528,000	2,331,000
Interest expense	**(290,000)**	(368,000)	(450,000)
Other, net	**641,000**	71,000	3,000
Earnings before income taxes	**73,474,000**	46,759,000	34,552,000
Provision for income taxes:			
Current	**32,000,000**	19,203,000	14,239,000
Deferred	**792,000**	1,142,000	1,261,000
	32,792,000	20,345,000	15,500,000
Net earnings	**$ 40,682,000**	$ 26,414,000	$ 19,052,000
Earnings per share	**$23.37**	$15.17	$10.94
Retained Earnings			
Retained earnings, beginning of year	**$ 97,388,000**	$ 80,548,000	$ 70,635,000
Net earnings	**40,682,000**	26,414,000	19,052,000
Cash dividends	**(11,315,000)**	(9,574,000	(9,139,000)
Retained earnings, end of year	**$126,755,000**	$ 97,388,000	$ 80,548,000

See notes to consolidated financial statements.

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Consolidated Statement of Changes in Financial Position

Years ended December 31, 1980, 1979 and 1978

	1980	1979	1978
Source of funds:			
From operations:			
Net earnings	**$ 40,682,000**	$ 26,414,000	$ 19,052,000
Expenses not currently requiring outlay of working capital:			
Depreciation	**4,431,000**	3,718,000	3,039,000
Deferred Federal income taxes	**792,000**	1,142,000	1,261,000
Funds generated from operations	**45,905,000**	31,274,000	23,352,000
Decrease (increase) in marketable securities and other assets	**(471,000)**	3,087,000	(70,000)
Total funds provided	**45,434,000**	34,361,000	23,282,000
Use of funds:			
Net additions to property, plant and equipment	**19,894,000**	9,823,000	10,964,000
Reclassification of marketable securities	**—**	—	20,655,000
Dividends	**11,315,000**	9,574,000	9,139,000
Reduction in long-term debt	**500,000**	500,000	500,000
Total funds used	**31,709,000**	19,897,000	41,258,000
Increase (decrease) in working capital	**$ 13,725,000**	$ 14,464,000	$(17,976,000)
Working capital increase (decrease) resulted from changes in:			
Cash	**$ (2,456,000)**	1,782,000	$ 395,000
Temporary investments	**21,150,000**	(150,000)	(26,888,000)
Accounts receivable	**6,965,000**	11,450,000	7,286,000
Installment notes and contracts receivable	**(868,000)**	(216,000)	2,785,000
Inventories	**2,903,000**	2,189,000	(303,000)
Accounts payable	**(3,288,000)**	3,408,000	(2,949,000)
Accrued liabilities	**(10,681,000)**	(3,999,000)	1,698,000
Increase (decrease) in working capital	**$ 13,725,000**	$ 14,464,000	$(17,976,000)

See notes to consolidated financial statements.

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Notes to Consolidated Financial Statements

(1) Summary of major accounting policies

Principles of consolidation: The consolidated financial statements include the accounts of the company and its subsidiaries after elimination of all significant intercompany accounts and transactions.

Temporary investments and investments in marketable securities: In the accompanying balance sheet, temporary investments are carried at cost, which approximates market. The investment in marketable securities consisting of corporate bonds, government securities and common stock are carried at cost and had a market value of $14,320,000 and $14,413,000 at December 31, 1980 and 1979, respectively. In management's opinion, there is no permanent impairment in value and there is no present intention to liquidate these securities at less than cost.

Installment notes and contracts receivable: A portion of the company's sales is made on notes and conditional sales contracts which are payable on an installment basis over a period generally from three to five years. The profit from such sales is included in income at the time of sale for financial reporting purposes; however, for tax purposes such profit is recognized as installments are collected. The amounts due after one year ($4,222,000 at December 31, 1980 and $5,422,000 at December 31, 1979) are included in current assets in accordance with trade practice.

Inventories: The company uses the last-in, first-out (LIFO) method of determining inventory cost, which does not exceed market, for substantially all inventories. Under FIFO and average cost methods, inventories would have been $31,936,000, $23,274,000 and $20,947,000 higher at December 31, 1980, 1979 and 1978, respectively. Inventory costs include material, labor and factory overhead.

Property, plant and equipment: The company records investments in these assets at cost. Improvements are capitalized, while repair and maintenance costs are charged to operations as incurred. Gains or losses realized on the sale or retirement of these assets are reflected in income.

The company uses the straight-line depreciation method for financial reporting and an accelerated method for tax purposes.

Income taxes: The company provides for United States taxes that may ultimately be payable on all undistributed foreign earnings and on undistributed earnings of its DISC subsidiary. Provision is also made in the financial statements for the deferred taxes applicable to depreciation, income on installment notes and contracts receivable and other timing differences between financial and tax reporting methods. Current recognition is given in the statement of earnings to tax benefits resulting from the utilization of investment tax credits. A reconciliation of provision for income taxes to the United States tax rate of 46% of earnings before income taxes in 1980 and 1979 and 48% in 1978 is as follows:

	(In thousands)		
	1980	1979	1978
Taxes computed at statutory rate	**$33,798**	$21,509	$16,585
Investment tax credits	**(925)**	(870)	(578)
Other, net	**(81)**	(294)	(507)
Actual provision	**$32,792**	$20,345	$15,500

(2) Long-term debt

The long-term debt at December 31, 1980 is payable $250,000 semi-annually thru 1987 and bears interest at 6.7 percent. The company is in compliance with the covenants of its debt agreements and does not believe that the covenants will have any adverse effect on future operations.

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(3) Retirement plans

The company and its subsidiaries have retirement plans covering substantially all employees. The total unfunded prior service cost at January 1, 1980, the date of the latest actuarial valuation, was estimated to be $12,459,000. The total pension expense was $3,769,000 in 1980 and $3,260,000 in 1979, including amortization of prior service costs principally over a 10-year period. The amount provided each year for pension expense is paid into pension trust funds.

A comparison of accumulated plan benefits and plan net assets for the plans are presented below:

	(In thousands) January 1	
	1980	1979
Actual present value of accumulated plan benefits—		
Vested	**$21,178**	$18,397
Nonvested	**1,881**	1,597
	$23,059	$19,994
Net assets available for benefits	**$24,359**	$20,136
Assumed rates of return used in determining the actuarial present values of accumulated plan benefits	**4.5%**	4.5%

(4) Supplementary income statement information

The following costs and expenses were charged to income during 1980, 1979 and 1978:

(In thousands)	**1980**	1979	1978
Maintenance and repairs	**$11,576**	$7,486	$5,851
Depreciation	**4,431**	3,718	3,039

Taxes, other than payroll and income, royalties and advertising costs were less than one percent of total sales in each year.

(5) Business segment information

Information concerning the company's various business segments is included on Page 20 of this report.

Report of Independent Public Accountants

To the Stockholders of Lufkin Industries, Inc.

We have examined the consolidated balance sheet of Lufkin Industries, Inc. (a Texas corporation), and subsidiaries as of December 31, 1980 and 1979 and the related consolidated statements of earnings, retained earnings and changes in financial position for each of the three years in the period ended December 31, 1980. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of Lufkin Industries, Inc., and subsidiaries as of December 31, 1980 and 1979, and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1980, in conformity with generally accepted accounting principles applied on a consistent basis.

ARTHUR ANDERSEN & CO.

Houston, Texas
February 16, 1981

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S. W. Henderson, III
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*M. E. Kurth, Jr.
*L. A. Little
W. T. Little
*R. L. Poland
H. J. Trout, Jr.
*W. W. Trout, Jr.
*J. L. Wiener
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*Member Executive Committee

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Assistant Secretary

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Assistant Secretary

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Assistant Treasurer

The foundry is the beginning for most parts for pumping units and gears. Expansion programs planned for the next three years will double its melting capacity.

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